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## REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON NYANDENI LOCAL MUNICIPALITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I have audited the financial statements of the Nyandeni Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No.2 of 2013 as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinion.

#### Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nyandeni Local Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

#### Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### Irregular expenditure

8. As disclosed in note 42 to the financial statements, irregular expenditure amounting to R26,8 million was incurred by the municipality during the year ended 30 June 2014. All of this



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irregular expenditure was the result of non-compliance with procurement requirements in previous financial years.

#### **Additional matter**

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### **Unaudited disclosure note**

10. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

11. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### **Predetermined objectives**

12. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
13. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant s required by the National Treasury *Framework for managing programme performance information*.

The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

14. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

#### **Additional matters**

15. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

#### **Adjustment of material misstatements**

16. We identified material misstatements in the annual performance report submitted for auditing on the reported performance information of the Storms water control objective. As management subsequently corrected the misstatements we did not raise any material findings on the usefulness and reliability of the reported performance information.

#### **Achievement of planned targets**

17. Refer to the annual performance information report on pages xxx to xxx for information on the achievement of planned targets for the year.





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### **Compliance with laws and regulations**

18. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA, are as follows:

### **Annual financial statements and annual report**

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and expenditure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Revenue management**

20. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### **Internal control**

21. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

### **Leadership**

22. The slow response by the accounting officer and management to the AGSA's messages contained in the previous audit report, together with inadequate in-year oversight of the audit action plan by the municipal public accounts committee and council, contributed to the repeat findings on material amendments and the interest payable on outstanding consumer debts. Improved in-year monitoring of the audit action plan is required to ensure that the municipality achieves an unqualified audit report with no findings on its performance report and compliance with applicable laws and regulations.

### **Financial and performance management**

23. Inadequate in-year reconciliation of the general ledger to the fixed asset register was the cause of the material amendments to financial statements submitted for audit. Regular in-year reconciliation of all key control accounts, together with the preparation of monthly financial statements, is required to avoid material amendments to the financial statements submitted for audit.

*Auditor General*

East London

28 November 2014



*Auditing to build public confidence*

